



PE-ACH/CSM Framework¹

Abstract	This document sets out the Framework for the evolution of clearing and settlement of payments in SEPA, including the principles for SEPA Scheme compliance and re-statement of the PE-ACH concept
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¹ Formerly known as the 'Framework for the Evolution of the Clearing and Settlement of Payments in SEPA – Including the Principles for SEPA Scheme Compliance and Re-Statement of the PE-ACH Concept'.

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0 DOCUMENT INFORMATION

0.1 References

	Document Identification	Title	Issued by:
[1]	EPC 135-03 28-01-2003	Resolution on the Pan-European ACH	EPC
[2]	EPC 330-03 17-09-2003	Resolution on PE-ACH Governance Guiding Principles	EPC
[3]	EPC 331-03 17-09-2003	Resolution on Groupings of Financial Institutions in PE-ACH	EPC
[4]	EPC 134-03 17-09-2003	Infrastructure Working Group Findings and Recommendations Report (revised)	EPC
[5]	EPC 485-04 27-02-2004	Impact Paper towards PE-ACH	EPC
[7]	EPC 016-06 22-02-2006	SEPA Direct Debit Scheme Rulebook v2.3	EPC
[8]	EPC 125-05 22-02-2006	SEPA Credit Transfer Scheme Rulebook v2.3	EPC
[9]	EPC 094-05 02-09-2005	TOR of the EPC Roll-out Committee	EPC
[10]	EPC 022-06 and EPC 027-06	Adherence Agreements (also part of Rulebooks)	EPC
[11]	EPC838-04 10-12-2004	Resolution Roadmap 2004 – 2010	EPC
[12]	PRES-EPC 109-04 10-12-2004	Roadmap 2004 – 2010	EPC
[13]	EPC 265-03 20-05-2003	Resolution on Receiver Capability	EPC
[14]	May 2002 White Paper	Euroland: Our Single Payment Area!	EPC
[15]	EPC029/06 February 2006	SEPA Data Model v1.0	EPC
[16]	17 March 2005	Crowne Plaza Declaration by the EPC	EPC
[17]	June 2003	Oversight Standards for Euro Retail Payment Systems	ECB

0.2 Change History

Issue number	Dated	Reason for revision
V1.0	22/02/06	Approved by the EPC Plenary at its meeting on 8 March 2006
V1.1	05/01/07	Approved by the EPC Plenary at its meeting on 13 December 2006 (addition of §3.6.5 by Resolution EPC145-06)
V1.2	24/06/08	Addition in Section 2.3 of an obligation for CSMs to maintain counts of transactions

0.3 About the EPC

The European Payments Council (EPC) is the decision-making and coordination body of the European banking industry in relation to payments whose declared purpose is to support and promote the creation of the Single Euro Payments Area (SEPA).

The vision for the SEPA was formulated in 2002 at the time of the launch of EPC, when some 42 banks, the three European Credit Sector Associations (ECSAs) and the Euro Banking Association (EBA) came together and, after an intensive workshop, released the White Paper in which the following declaration was made and subsequently incorporated into the EPC Charter:

"We, the European banks and European Credit Sector Associations:

share the common vision that Euroland payments are domestic payments,

join forces to implement this vision for the benefit of European customers, industry and banks and accordingly,

launch our Single Payments Area."

The definition of SEPA is part of EPC Roadmap as approved by the December 2004 Plenary. SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe (currently defined as consisting of the EU 25 member states plus Iceland, Norway, Liechtenstein and Switzerland), whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

The SEPA will be delivered as a priority within the Eurozone. Within SEPA, but outside the Eurozone, there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the single market for payment services.

0.4 Background Information

In 2002/03, the Infrastructure Working Group of the EPC and the EPC Plenary made considerable progress in defining the PE-ACH concept as the basis for processing of euro payments.

The EPC Roadmap 2004-2010 (references [11] and [12]), as approved by the December 2004 Plenary, resolved to create SEPA Schemes for credit transfers and direct debits. At the same time it enshrined the important principle that SEPA Schemes should be separated from the infrastructures through which they are operated. It further stated that infrastructure should be an area where market forces operate based on the decisions of Scheme Participants, although, of course, Scheme Participants will cooperate at the level of individual infrastructure projects.

Consequently, a SEPA Scheme provides a common set of rules, practices and standards for the provision and operation of a SEPA payment instrument. In this way it creates the basis for interoperability between Scheme Participants and any intermediary parties that are introduced into the transaction flow. The vision is for one scheme for each instrument, which is then operated by all adhering Scheme Participants and potentially multiple infrastructure providers.

As a further dimension, Infrastructures will often outsource technical & operational functions to processors, networks and other service providers, and such entities have also declared an interest in playing a role in the new landscape. This Framework does not establish principles or procedures in relation to these activities.

0.5 Purpose and Scope of Document

This document is issued by the EPC and establishes the principles on which Clearing and Settlement Mechanisms (CSMs) will support the Schemes for SEPA Credit Transfer and SEPA Direct Debit on the basis of separation of Scheme from infrastructure. This document provides an update and clarification of the required principles, building on work already completed by the EPC. It has a clear focus on the delineation of roles and responsibilities between the scheme layer and the infrastructure layer.

The PE-ACH/CSM Framework is deliberately created as a set of high-level principles and is an important complementary document to the SEPA Direct Debit Scheme and the SEPA Credit Transfer Scheme Rulebooks.

In order to clarify what the Framework does and does not cover, the following paragraphs refer to the role of the Framework with respect to interoperability, reachability, and responsibility.

0.5.1 Interoperability

The conditions for interoperability are defined in the Scheme Rulebooks. Further elements of interoperability will be supported by the supporting infrastructure. It is not part of the vision of this Framework that all current CSMs or all future SEPA Scheme compliant CSMs will necessarily interoperate with each other. It is explained that a selective and market driven approach will be taken by Scheme Participants in creating the necessary infrastructure to support the SEPA Schemes.

0.5.2 Receiver Capability and Reachability

The PE-ACH/CSM Framework makes the assumption that EPC will have obtained the commitment of its communities such that all banks who are members of national credit transfer or direct debit schemes will have become Scheme Participants in the SEPA Schemes. This will create the necessary conditions for reachability throughout SEPA, which CSMs will support with their services. It is expected that EPC will pass the necessary resolutions during 2006 to reaffirm Receiver Capability for the SEPA Credit Transfer and Reachability for the SEPA Direct Debit scheme. Receiver capability/reachability is based on the commitment of potential Scheme Participants to join the Schemes and is not provided through the Rulebooks themselves or through CSMs on their own.

0.5.3 Responsibility

The PE-ACH/CSM Framework is a firm declaration of policy issued by the EPC for use within SEPA. It is not intended to be a legally binding contractual agreement. Its dispositions are intended to be implemented through the Scheme Participants who adhere to the Schemes. It is not intended that the EPC itself directly takes responsibility for enforcement or compliance with the Framework by CSMs. This is left to Scheme Participants who use and or own the CSMs.

If it is subsequently determined that further guidance is required with respect to more detailed practices, procedures for interoperability, or other aspects, EPC will determine the most appropriate method to meet such requirements.

0.6 Background to Related EPC Resolutions and Documents and their Proposed Replacement

The following lists the resolutions and the most important documents on the subject produced to date:

1. Resolution on the Pan-European ACH, approved by the EPC Plenary 28 January 2003 (reference [1]), including a reference to a preliminary version of the Findings and Recommendations Report referred to in point 5 below. This Resolution confirmed the Financial Industry's vision of the Pan-European ACH as the preferred concept, established a definition of PE-ACH, and recognised that there could be more than one service provider for PE-ACH.
2. Resolution on Receiver Capability approved by the EPC Plenary 4 June 2003 (reference [13]). It established the rules for Receiver Capability within the PE-ACH Framework, to be applied for all PE-ACH service providers, in particular in the specific case of connecting to EBA STEP2
3. Resolution on PE-ACH Governance Guiding Principles, approved by the EPC Plenary 17 September 2003 (reference [2]). It established a set of governance principles for PE-ACH, based on the report referred to in point 5 below.
4. Resolution on Groupings of Financial Institutions in PE-ACH, approved by the EPC Plenary 17 September 2003 (reference [3]). It established the principle that groups of financial institutions utilising PE-ACH should receive aggregate pricing under defined conditions.
5. Revised version of the "Findings and Recommendations Report" presented by the Infrastructure Working Group (IWG) (reference [4]) to the EPC-Plenary 17 September 2003.
6. Impact Paper towards PE-ACH, dated 27 February 2004 (reference [5]) prepared by the Infrastructure Working Group but not formally adopted by the EPC Plenary. This is essentially a summary of documents 1-5.

This document is intended to replace all aforementioned documents. During 2006 appropriate resolutions will be brought forward to review these resolutions and documents, whilst ensuring that all provisions relevant for the future are retained either in this Framework or in accompanying Resolutions.

0.7 Other Related Documents

This document refers to the EPC publications SEPA Direct Debit Scheme Rulebook (reference [7]) and SEPA Credit Transfer Scheme Rulebook (reference [8]) The Scheme Rulebooks are primarily focused on stating the business requirements and rules for the operation of the Scheme.

In addition to the Rulebooks above, the following adjacent documents are relevant:

1. A definition of the Scheme Management Entity. By June 2006, it is planned to put proposals to the EPC Plenary for the permanent Scheme Management Entity on the basis of recommendations to be developed by the ROC.
2. The Adherence Agreements (reference [10]) for the two Schemes. Each Scheme Participant adhering to a Scheme will be required to sign an agreement, either itself or under a delegated authority to an association or another authorised organisation.
3. The SEPA Data Model (reference [15]) describes and specifies in detail the complete data requirements for the operations of the Schemes.

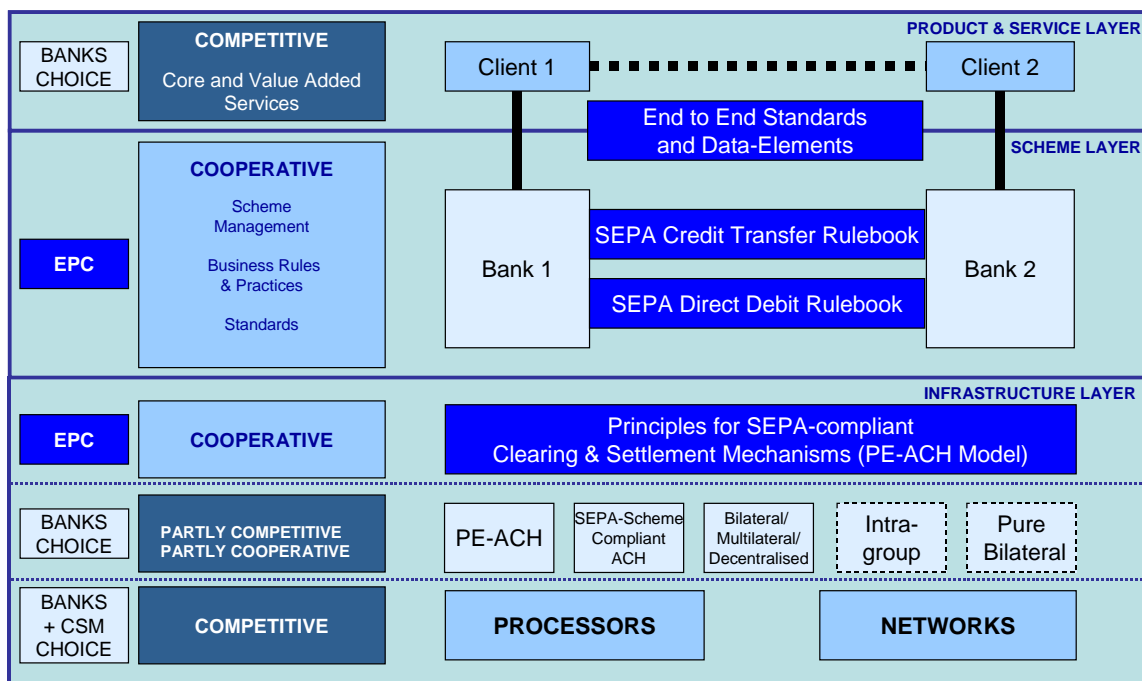
1 VISION, OBJECTIVES AND GUIDING PRINCIPLES

1.1 Vision for the Positioning of the SEPA Payments Schemes

The SEPA Schemes for Credit Transfer and Direct Debit are positioned to allow Scheme Participants to compete in providing services to customers, and to separate the schemes from the infrastructure used to clear and settle payments between Scheme Participants. Whilst there is one set of scheme rules and standards for each payment instrument there may be a number of infrastructural service providers.

The following diagram identifies three layers :

1. The Product and Service Layer: where Scheme Participants offer core and additional optional services based on the Schemes in a competitive environment in which Scheme Participants choose how to operate in the market. EPC provides end-to-end standards and data elements to ensure STP within the four-corner model established by the Rulebooks.
2. The Scheme Layer: this is the cooperative domain of EPC, which is responsible for the Scheme Rulebooks and for scheme management. The basis for interoperability in the SEPA Schemes is the business rules and standards established by the Rulebooks together with the SEPA Data Model and SEPA standards. All requirements for interoperability stem from these rules, practices, and standards.
3. The Infrastructure Layer: where Clearing and Settlement Mechanisms operate on behalf of Scheme Participants.



The CSMs mentioned on second level of the infrastructure layer all are SEPA Scheme compliant.

In the Infrastructure Layer three sub-layers are identified. At the first level the EPC defines a set of Principles for SEPA Scheme compliant Clearing and Settlement Mechanisms (see Chapter 2 of this document). At the second level, the Scheme Participants will then select the CSMs which fit their purposes provided that they comply with these principles. Scheme Participants are responsible for controlling their CSMs and their compliance with Scheme Rulebooks. At the third level, in turn, processors and networks play a role in supporting the operations of Scheme Participants and CSMs, under contracts agreed between the parties concerned.

1.2 Objectives of this Framework

1. To set forth principles and rules for enabling an open, sound and competitive operational basis for the clearing and settlement of payments under the Schemes so that the Schemes may be successfully launched by January 2008 and supported as volumes grow thereafter.
2. To reaffirm the need for the realisation and the definition of the PE-ACH as a key component of SEPA infrastructure whilst recognising that different forms of SEPA Scheme compliant CSM may operate in a competitive market.
3. To establish a clear delineation of roles and responsibilities between the Schemes themselves and the infrastructures that support them in a manner that is fully consistent with the Scheme Rulebooks.
4. To facilitate the reachability of all Scheme Participants in SEPA.
5. To formulate the basis for interoperability between Scheme Participants participating in the Schemes by requiring CSMs to observe the same rules and standards and to establish the necessary procedures to accomplish this.
6. To enable competition between CSMs and to facilitate the consolidation of infrastructure in the interests of efficiency and cost effectiveness.

1.3 Guiding Principles

In order to reach the above objectives, the following guiding principles have been developed to underpin the EPC approach.

1. Promotion of the optimal balance between cooperation and competition
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The Schemes themselves require a high level of cooperation in terms of respecting the rules, practices and standards which provide the basis for interoperability.

The infrastructure for the clearing and settlement of retail payments has developed mainly on a national basis and SEPA will require a SEPA-wide clearing and settlement infrastructure. Given the market scale represented by SEPA, the possibility for increased competition as well as strong cooperation between infrastructure service providers including third-party processors and networks will be enhanced. EPC recognises the role competition could play in this area. These CSMs will also compete to provide additional optional services, different pricing models and service levels.

The EPC is in favour of the private sector taking responsibility for the processing of retail payments. Where CSMs are provided by the public sector in the form of central banks or related service providers, they should observe the same principles as apply in the private sector in terms of cost recovery, transparency, and competition in order to create a level playing field.

2. Focus of EPC is on support for interoperability between scheme participants and promotion of the PE-ACH.

In the domain of clearing and settlement, EPC needs to establish principles as set out in this document in order to ensure the compliance by Scheme Participants and their CSMs with Scheme rules, and the consistent compliance with the Rulebooks throughout SEPA. Scheme Participants will supervise and control the CSMs they own and/or use regarding their respect of the Scheme Rulebooks and this Framework.

The result of this approach is to confine EPC's role to these areas and not require the creation of a detailed prescription for the SEPA infrastructure. However EPC reinforces its commitment to the PE-ACH concept. PE-ACH will create a fully interoperable infrastructure for SEPA.

EPC also encourages and expects all SEPA Scheme compliant CSMs to cooperate in delivering the SEPA vision and in creating the required basis for interoperability through appropriate linkages, procedures, working agreements and performance standards. It is not however part of the vision of this Framework that all current CSMs or all future SEPA Scheme compliant CSMs will necessarily interoperate with each other. A selective and market-driven approach will be taken by Scheme Participants in creating the necessary infrastructure to support the SEPA Schemes.

3. First make Schemes available then encourage infrastructure consolidation.

EPC considers that meeting the objectives of SEPA will be achieved in the first place by the adoption by Scheme Participants of the SEPA Schemes and standards, resulting in the availability of products and services based on the Schemes. In turn this will have an impact on clearing and settlement activities involved, at the level of systems, processes and time cycles. In order to launch SEPA, the key priority is the adjustment of such systems, processes and time cycles to the provisions of the Schemes.

The likely consolidation of CSMs (national Automated Clearing Houses or any equivalent) and the further development of PE-ACH must be a high priority. Whenever possible communities of users of CSMs may indeed take consolidation decisions as part of the realisation of the Scheme roll-outs without prejudicing the availability of the Schemes themselves.

The EPC considers that any consolidation of CSMs is a decision for the community of their users and/or their shareholders. Where public sector providers are concerned, they should be subject to the same market disciplines that may stimulate a consolidation of infrastructure as are faced by the private sector.

2 PRINCIPLES FOR SEPA SCHEME COMPLIANCE BY A CSM AND ITS USERS

A **Clearing and Settlement Mechanism** (CSM) allows participating Scheme Participants or their branches to clear and settle payments made between them. **Clearing** is the process of transmitting, reconciling, and confirming payments of different types and the establishment of a final position for settlement either on an individual transaction basis or on a periodic basis for aggregated or netted positions.

Settlement is an act that discharges the obligations created through the clearing process with respect to liabilities between participating Scheme Participants. Settlement may be carried out in central bank money across the books of a central bank or in commercial bank money across the books of a commercial bank. The mode of settlement will be determined according to the rules and/or procedures of a particular CSM taking into account, as appropriate, the Oversight Standards for Euro Retail Payments Systems published by the European Central Bank in June 2003 (reference [17]).

The term Clearing and Settlement Mechanism does not necessarily connote one entity, for example, it is possible that the clearing function and the settlement function are conducted by separate actors.

CSMs may include the services of a mechanism such as an automated clearing house or other mechanisms such as intra-bank and intra-group arrangements and bilateral or multilateral agreements between banks.

This Framework is neutral as to the business and technical architecture and components of individual CSMs. However, given the need for full reachability across SEPA and interoperability of Scheme Participants, the Framework reinforces EPC's commitment to the evolution of PE-ACH as the most efficient concept to achieve SEPA objectives.

2.1 CSM Categories

CSMs fall into a number of categories, all of which are possible mechanisms alongside the preferred PE-ACH concept for selection by Scheme Participants wishing to execute payments in accordance with the Schemes. The categories are:

1. A PE-ACH compliant ACH meeting the criteria set out in this Chapter and in Chapter 3.
2. A SEPA Scheme compliant ACH which is not (yet) PE-ACH compliant and meets the requirements set out in this chapter.
3. A SEPA Scheme compliant decentralised form of structured bilateral and/or multilateral clearing and settlement not using an ACH organisation.
4. A SEPA Scheme compliant intra-bank and/or intra-group clearing and settlement arrangement, typically where both the originator/creditor and beneficiary/debtor have their accounts within the same bank or group.
5. A form of purely bilateral non-structured SEPA Scheme compliant clearing and settlement, such as correspondent banks.

The last two categories are mentioned in this Framework for the sake of completeness but being private arrangements are not specifically provided for further within this document. Accordingly, certain of the requirements below may not apply and it is for the Scheme Participants using such CSMs to make appropriate arrangements between themselves.

2.2 CSM Compliance Levels

There are two levels of compliance for CSMs in SEPA:

Level 1. **SEPA Scheme compliant CSM.** Any type of CSM as set out above wishing to process Scheme transactions needs to meet the basic principles described in Section 2.3.

Level 2. **PE-ACH compliant ACH.** These principles are described in Chapter 3.

2.3 Principles for SEPA Scheme Compliance by CSMs

In order for a CSM to be SEPA Scheme compliant, it needs to operate in a manner which supports full compliance with the requirements of one or both Scheme Rulebooks by the Scheme Participants which utilise the CSM. Such compliance will include, in particular:

1. Delivery of all payment information in full and without alteration between the involved Scheme Participants.
2. All operations must be executed in such a way as to ensure that the maximum execution time (or the agreed execution time if a lesser period) and stipulated time cycles can be fully respected as set out in the Rulebooks.
3. All charges and fees collected from Scheme Participants directly using the services of a CSM are levied directly to such participating Scheme Participants and never recovered by deduction from a SEPA payment transaction or never directly charged to the customer of a Scheme Participant or to a non-direct participating Scheme Participant.
4. CSMs must request and use agreed SEPA data formats and technical guidelines.
5. Any provision of Additional Optional Services as defined in the Rulebooks, any provision of services for non-SEPA schemes, and any other additional services provided shall not compromise the provisions of the Scheme Rulebooks.
6. CSMs shall establish and/or make reference to appropriate operational rules, access criteria, practices and guidelines appropriate to its functioning on a fully transparent and robust basis.
7. CSMs shall comply with the Oversight Standards for Euro Retail Payments Systems published by the European Central Bank in June 2003 (reference [17]), and as may be amended in the future, as well as similar standards as promulgated by regulators as required.
8. Where a CSM corresponds to categories 2 and 3 in paragraph 2.1 above it is expected to meet the requirements set out in paragraphs 3.4, 3.5 and 3.6 in Chapter 3 as relates to access criteria, functions performed and governance principles.
9. CSMs shall create and maintain a count of transactions between each pair of Scheme Participants using its CSM services, and make it available to the Scheme Participants who are direct users of the CSM's services, notably to comply with obligations related to MBP, as described in the SEPA Core SDD Scheme Rulebook, chapters 5.2 and 5.14 and any possible similar provisions for the B2B Direct Debit Scheme.

2.4 Recommended Practices to be Observed by Scheme Participants in Relation to the Use of a SEPA Scheme Compliant CSM

Scheme Participants using CSMs will need to observe operational rules, practices and guidelines appropriate to the individual CSM selected. Scheme Participants must be compliant with the obligation to achieve full reachability within SEPA, regardless of the CSMs they are using. This may be achieved in one or more of the following ways:

1. Each Scheme Participant shall ensure that it establishes access to a sufficient number of CSMs so as to create the required options for making and receiving payments and thereby creating reachability.
2. For Scheme Participants as users and where applicable as owners of CSMs to seek the necessary evolution of infrastructure so as create full reachability with a preference for the PE-ACH concept (see 3.4 below).
3. A Scheme Participant selecting a CSM must establish that the receiving Scheme Participant is addressable (directly or indirectly) through that mechanism.
4. Where the remitting Scheme Participant has no prior knowledge of how to address another Scheme Participant, the default selection will be a PE-ACH through which all Scheme Participants should be reachable.
5. Scheme Participants shall ensure that their chosen CSMs are and continue to be compliant with SEPA Scheme Rulebooks and the provisions of this Framework.

3 PRINCIPLES FOR PE-ACH COMPLIANCE

3.1 Definition and Evolution of PE-ACH

PE-ACH constitutes one category of SEPA Scheme compliant CSM. Building on the definition of PE-ACH set out in earlier work of EPC, the current definition of PE-ACH compliant ACH is now as follows:

“A PE-ACH compliant ACH is a business platform which will include the provision of the clearing and settlement of SEPA Scheme payments with full reachability throughout SEPA and made up of governance and operational rules, the necessary technical platform(s) and related services.”

A PE-ACH compliant ACH is much more than a CSM in isolation. It provides reach, which is an essential requirement of SEPA, a governance framework for the benefit of the industry, a platform for additional services and a preferred migration path for SEPA. In order for the PE-ACH concept to receive the necessary impetus it is important that it achieves critical mass and that other infrastructure solutions do not act as a brake on the development of PE-ACH compliant ACHs.

This Framework foresees the necessity of at least one PE-ACH compliant ACH, but also the possibility of the coexistence of more than one. A PE-ACH compliant ACH could be one integrated PE-ACH compliant ACH acting alone or composed of several SEPA Scheme compliant CSMs affiliating with each other in an integrated environment and thereby becoming PE-ACH compliant. EPC also recognises the possibility that one integrated PE-ACH compliant ACH could evolve over time as the result of consolidation. It may also be possible where there is more than one PE-ACH compliant ACH for them to both cooperate and compete in different geographic areas or business aspects (cf. the telecommunication industry).

EPC is not in a position to regulate this evolution, as all decisions are taken by users and owners in a partly competitive and partly cooperative environment.

The following sections of this chapter represent a restatement of the PE-ACH concept.

3.2 Principles for PE-ACH Compliance

The principles for PE-ACH compliance by an ACH are as follows:

1. Observance of the principles for SEPA Scheme compliance applicable to all CSMs as described in Chapter 2 in relation to the Scheme Rulebooks.
2. Provision of the necessary SEPA-wide reachability, either by itself or by affiliation with other ACHs (or other CSMs defined in paragraph 2.1, Category 3), seeking PE-ACH compliance.
3. Observe the governance principles set out in paragraph 3.6 below.

A further level of detail on some of the above principles is provided below.

3.3 Reach

As reachability is essential for the success of the SEPA Schemes, the PE-ACH compliant ACH must put in place the necessary tools and arrangements to accept for clearing and for settlement any payment resulting from a transaction under the Schemes which is addressed to any Scheme Participants.

The PE-ACH compliant ACH can realise this reachability in different ways:

1. By sending and receiving payments to and from its own direct and indirect users.
2. By making one or more agreements with other ACHs, who are or are seeking to be PE-ACH compliant and who can offer the reachability to their participating users.
3. By connecting to another SEPA Scheme compliant CSM, such as to provide reachability for users not covered by 1 & 2 above.

PE-ACH compliant ACHs are responsible for all aspects of the above arrangements, at their own risk and responsibility and that of their users. Where affiliation with other ACHs takes place, the ACHs together with their users are responsible for ensuring the safety and soundness of the resultant arrangements as well as technical connectivity. Particular attention should be paid to regulatory requirements affecting the individual ACHs and their inter-linkages together with the whole arrangement.

Notwithstanding the above, Scheme Participants are free to organise their own selection of channels to achieve reach on the sending side by managing their own selection of CSMs as they see fit. All Scheme Participants must, however, be reachable on the receiving side through PE-ACH.

3.4 Access Criteria to a PE-ACH Compliant ACH

Eligible users will be Scheme Participants located in SEPA who subscribe to an Adherence Agreement for a SEPA Scheme. PE-ACH compliant ACHs may have users in relation to services for non-SEPA schemes. This latter category is not considered further in this Framework.

A Scheme Participant can be a direct or indirect user of PE-ACH. A direct user for clearing services is connected to send and receive payments to/from a PE-ACH compliant ACH. An indirect user of clearing services is connected through the intermediation of a direct user. Similarly, for settlement services, a user may be a direct or indirect participant. Being a direct user for settlement does not oblige a user to be a direct user for clearing, or vice versa.

Access criteria for direct users should respect the following principles:

1. In order to provide a SEPA-wide market for clearing and settlement services, the principle of fair and open access for all Scheme Participants in SEPA should be guaranteed. A PE-ACH compliant ACH should be country-neutral in its access criteria, governance and rules.
2. The basis on which a direct user may use the services of the PE-ACH compliant ACH in question must be clearly identified. Such principles should not include unjustified entry or continuing obligations.
3. Access implies that the direct user complies with the prudential and operational rules established by the PE-ACH compliant ACH.
4. Access criteria for other services, not related to the SEPA Schemes must not include obligations that discriminate between direct users using only SEPA-related services and direct users using SEPA-related and other services.

Access should be documented in an agreement signed between a Scheme Participant and the PE-ACH compliant ACH.

3.5 Functions Performed by PE-ACH Compliant ACHs

The two major functions are currently:

1. Clearing services for SEPA Direct Debit and/or SEPA Credit Transfer transactions.
2. Settlement services for SEPA Direct Debit and/or SEPA Credit Transfer transactions.

A PE-ACH compliant ACH is not obliged to offer both clearing and settlement services for either Scheme. It can make arrangements with other CSMs for providing the service not provided by itself. Such settlement services may include the use of TARGET2 under the rules established by the Eurosystem.

As new SEPA schemes are created PE-ACH compliant ACHs are expected to positively evaluate whether they will provide clearing and/or settlement services for such schemes to Scheme Participants.

3.6 Governance Principles

This section builds on the previous EPC-Resolution on PE-ACH Governance Guiding Principles (reference [2]). For the sake of clarity, it has been modified to reflect the content of the Rulebooks and align with the Oversight Principles referred to in chapter 2.

3.6.1 Governing Structure and Representation of Users and Owners

1. Every user should have the opportunity to participate in the governance structure and be fairly represented.
2. Governance arrangements should ensure that owners and users have appropriate and balanced representation in decision making processes.
3. A transparent and a clear definition of the responsibilities and liabilities of each category of user should be established.
4. The PE-ACH compliant ACH shall have the appropriate legal structure and audit functions in place to support its objectives.

3.6.2 Decision-making Process

1. A PE-ACH compliant ACH must have an effective, workable, transparent and unambiguous decision-making process.
2. A mechanism should be put in place to enforce decisions and to ensure commitment from their users to apply the rules.
3. A mechanism for dispute resolution shall be put in place.

3.6.3 Pricing

1. Should be fair, transparent and non-discriminatory.
2. Pricing should respect competition rules and not be a barrier to access.

3.6.4 Non-discrimination between Existing and New Users

A fair and transparent mechanism to accommodate new users whilst recognizing the risks, if any, taken by the existing users should be put in place.

3.6.5 Groupings of Financial Institutions

Groupings of financial institutions are to be considered and acknowledged in pricing and representation rules, subject to fair, transparent and objective criteria and the avoidance of market distortions.

4 EPC GOVERNANCE REQUIREMENTS

The PE-ACH/CSM Framework is addressed to Scheme Participants in SEPA Payments Schemes, and Scheme Participants are responsible for ensuring compliance with its provisions.

All SEPA Scheme compliant CSMs, except those conducted on a purely bilateral or internalised basis (categories 4 and 5 in paragraph 2.1), must identify themselves to EPC as a CSM supporting SEPA payment Schemes by means of a disclosure letter for information purposes.

All such CSMs shall perform a self-assessment on a regular basis to demonstrate compliance with this Framework. Such self assessments will be made available to Scheme Participants as appropriate, who are responsible for enforcement of and compliance with the Scheme Rulebooks and the Framework. In order to support the realisation of the full reachability of all banks in SEPA, the EPC should plan to reinforce its June 2003 initiative on Receiver Capability for credit transfers regulated by regulation 2560/2001, by proposals for approval during 2006 of a new resolution on Reachability with regard to the SEPA Direct Debit Scheme, and (if appropriate) the SEPA Credit Transfer Scheme.

Amendments and updates to this PE-ACH/CSM Framework are the responsibility of the EPC Plenary.

5 TIMESCALE

By 2008 it is necessary that there is at least one PE-ACH compliant ACH in full operation with SEPA-wide reach for all SEPA Schemes.

A sufficient number of other CSMs will be operational so as to support the commitment of Scheme Participants to make available SEPA payment services to all their customers who wish to use them.

By 2010 the infrastructure supporting the SEPA Payment Schemes will be in a highly developed state to support the critical mass of payments that will have migrated to the SEPA Schemes as set out in the Crown Plaza Declaration of 17 March 2005 (reference [16]).

All SEPA Scheme compliant CSMs, whether in the public or private sector, will be actively involved in adapting to and shaping the new environment so as to deliver a cost effective efficient and competitive infrastructure for the new SEPA world.